

64 Gardenia Street  
Blackburn VIC 3130  
Telephone: 0418 373 057  
Email: [graeme.macmillan2@gmail.com](mailto:graeme.macmillan2@gmail.com)

9<sup>th</sup> August 2018

Ms Kris Peach  
Chair and CEO  
Australian Accounting Standards Board  
Level 14, 530 Collins Street  
MELBOURNE VIC 3000

Dear Kris,

## **Response on applying the IASB's Revised Conceptual Framework – Phase 1**

In response to the Consultation Paper and the recent Workshop undertaken by the AASB, I wish to submit that Australia should retain Statement of Accounting Concepts No 1 (SAC 1), *The Reporting Entity*, as it remains the most powerful and effective concept underpinning our financial reporting. It sets aside legal form and concentrates on the substance of the economic entity required to produce general purpose financial reports.

### **Q1 – Do you agree with the short-term approach to maintain IFRS compliance by introducing the RCF into Australia?**

No - Instead of trying to fit the inadequate IASB Conceptual Framework 'RCF' recommendations into Australian accounting standards, we should simply remove the reference to the RCF 'reporting entity' from the existing accounting standards (AAS) where it is referenced (including AASB 3 and AASB 12). The RCF idea of reporting entity is so wishy washy its absence from AASBs would not be missed, and the concept imbedded in SAC 1 would remain for guidance to accountants, whether or not legislators and regulators choose what form of financial reporting standards should be applied. Maintaining SAC1 would not be inconsistent with the RCF.

My views are formed from the strength SAC1 has given me over many years, especially promoting the use of accounting standards into the public sector and not for profit sectors. A concept is a concept, not a rule.

The problem of Special Purpose Financial Reports (SPFSs) – is essentially a regulatory matter, not a conceptual accounting one.

**Q2 Do you agree that the short-term approach should be applicable to both public accountable for-profit private sector and public sector entities?**

I strongly believe that the AASBs should apply to all entities regardless of their objectives, purpose, industry classification or intent. Otherwise, we do not have standards, only different rules according to how someone classifies an entity. The question of size is different, as most entities will not have access to accounting skills, although technology is rapidly changing that. Let's not make up any more reasons for entities to be considered different – accounting is accounting is accounting.

**Q3 Are you aware of publicly accountable for-profit entities currently self-assessing as non-reporting entities and preparing SPFS that would have implications under the AASB's short-term approach?**

No – but I have an example of a large **not-for-profit entity** currently self-assessing as a non-reporting entity and preparing SPFS that has implications for the proposed AASB short-term approach.

**Q4 Do you agree with the AASB's amendments to the definition of 'public accountability' in AASB 1053 per IFRS for SMEs Standard?**

No – see my comments under Question 1. SAC1 is strong because it covers all entities despite any economic or institutional classifications. The amendments proposed to “fit” the RCF are simply unnecessary if you take a conceptual view.

**Q5 – Do you agree with the proposed amendments to SAC1 *Definition of the Reporting Entity* and the following Australian Accounting Standards, as set out in Appendix A?**

No – simply unnecessary if we maintain SAC1 is relevant to all entities. The current amendments proposed make it even more confusing. Cannot we simply declare that for purposes of applying accounting concepts, SAC1 definitions should be maintained?

It seems to me that the fundamental problem with the current IASB pronouncements are based on “private sector” notions – e.g., the definition of public accountability, whereas SAC1 is conceptually based on the reporting entity, notwithstanding its economic/institutional classification. This is the major asset of Australian accounting. If we make unnecessary complicated changes to the present AASBs to fit in with some inconsistent framework, we are only making it worse.

Better we spend out time in trying to simplify the application of accounting standards and convincing governments and regulators of the need to take a holistic and consistent approach to financial reporting.

Yours sincerely,

Graeme Macmillan, FCA (ret)